

U.S. Department of the Treasury



**Community Development
Financial Institutions Fund
New Markets Tax Credit
Program**

The Path to Stronger Communities
Erie, PA – October 8, 2003

CDFI
fund

CDFI Fund Mission and Background

- Created in 1994
- Mission:
 - To expand the capacity of financial institutions to provide capital, credit, and financial services in underserved markets



CDFI Fund Aligned with Treasury Mission

Treasury Goals	Treasury Objectives	CDFI Fund Objectives
<i>Promote prosperous U.S. and world economies</i>	Increase economic growth and create jobs	Improve the economic and living conditions of underserved communities by providing an array of community development financial services through CDFIs and CDEs.
<i>Preserve the integrity of financial systems</i>	Preserve and increase the reliability of the U.S. financial system	Strengthen the financing, capacity, sustainability or self-reliance of a nationwide network of regulated and non-regulated financial institutions serving underserved areas.

CDFI Fund Initiatives

- ***CDFI Program:*** Provides assistance to CDFIs and emerging CDFIs
- ***NACD Program:*** Supports development and growth of Native American CDFIs.
- ***Bank Enterprise Award (BEA) Program:*** Provides awards to insured depository institutions for increasing investments in CDFIs and/or activities in distressed communities
- ***New Markets Tax Credit (NMTC) Program***



- Enacted on December 21, 2000
- Part of the Community Renewal Tax Relief Act of 2000
- Creates a tax credit for equity investments in Community Development Entities (CDEs)
- Beneficial to nearly 40 percent of the nation's geography

NMTC Program Purpose

- Stimulate private sector investment in the economic development of low income communities
- Improve economically distressed communities
- Spur economic growth in new and emerging markets

Amount of NMTC Investment Authority Available

2002	\$2.5 billion	Combined for 2003 round
2003	\$1.5 billion	
2004	\$2 billion	
2005	\$2 billion	
2006	\$3.5 billion	
2007	<u>\$3.5 billion</u>	
TOTAL	\$15 billion	

Unallocated investment authority may be carried over from year to year through 2014.

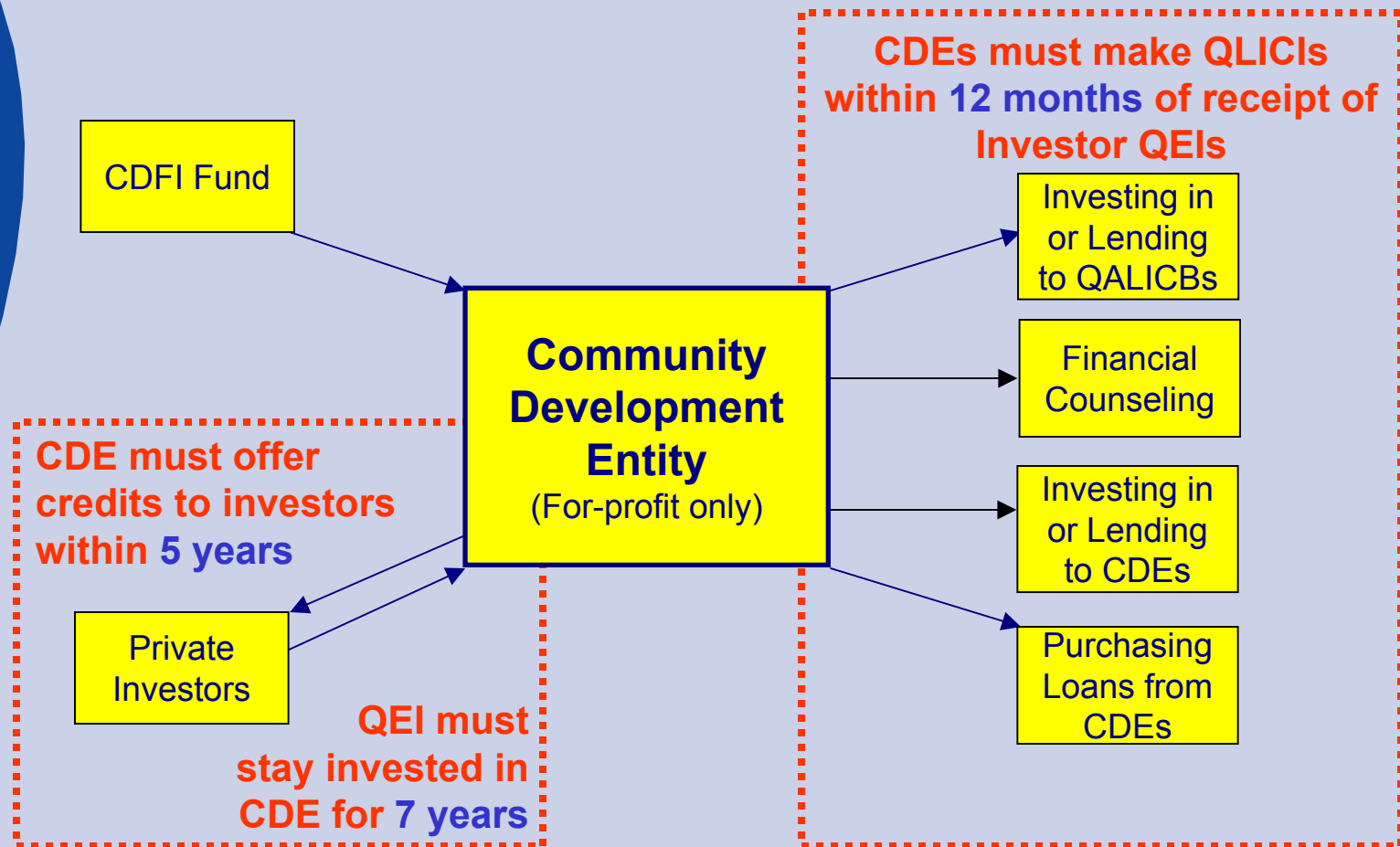
Investor's Ability to Claim NMTCs

- NMTCs are offered to investors for “Qualified Equity Investments” (QEIs) in the CDE
- QEI is any purchase of stock or capital interest in a for-profit corporation or partnership
- QEIs must remain invested in the same CDE for a 7-year period
- Investors generally may claim credits as of the date a QEI is initially made

Credit Amount

- Credit taken over a 7-year period
- Credit rate:
 - 5% in each of the first 3 years
 - 6% in each of the final 4 years
- Equals 39% of amount of original investment

How it works...



Process Overview

- Step 1:** Entities apply to the Fund for CDE certification
- Step 2:** Entities apply competitively to the Fund for a NMTC allocation
- Step 3:** The Fund selects CDEs to receive NMTC allocations
- Step 4:** CDEs use allocations to offer NMTCs to investors for cash
- Step 5:** CDEs use proceeds to make “Qualifying Low-Income Community Investments” (QLICIs)

What is a CDE?

- A domestic corporation or partnership that is an intermediary vehicle for the provision of loans, investments or financial counseling in “Low-Income Communities” (LICs).
- CDEs are required to demonstrate that they:
 - Have a **primary mission** of serving, or providing investment capital for, LICs or Low-Income Persons
 - Are **accountable** to residents of the LICs that they serve

What are Qualified Low-Income Community Investments (QLICIs)

- 1) Any capital or equity investment in, or loan to, any “Qualified Active Low-Income Community Business” (QALICB)
- 2) Any equity investment in, or loan to, any CDE
- 3) Purchase of a loan from another CDE if the loan is a QLICI
- 4) “Financial Counseling and Other Services” (FCOS) to businesses located in, or residents of, LICs

Who Can Apply?

- Both for-profit and non-profit entities may apply
- In its Allocation Application, a non-profit applicant must discuss its strategy to:
 - Form at least one for-profit subsidiary
 - Transfer its entire allocation to for-profit subsidiaries

Allocation Review Criteria

- Maximum of 110 points
- Four sections of 25 points each:
 - Business Strategy
 - Capitalization Strategy
 - Management Capacity
 - Community Impact

Applicants could earn an additional 10 “priority” points in Business Strategy.

Priority Points (in Business Strategy)

“Priority” points given under Business Strategy section to CDEs:

- 1) With a **track record** of having successfully provided capital or technical assistance to disadvantaged businesses or communities; or
- 2) Intending to invest in businesses in which **unrelated parties** hold the majority equity interest

Timing of Investments

- CDEs must offer NMTCs to investors within 5 years of receiving an allocation
- CDEs have 12 months to invest “substantially all” (generally 85%) of their QEI proceeds into QLICs
- Generally, CDEs that receive returns of capital will have 12 months to reinvest those funds in QLICs.
 - Reinvestment is not required in the final year of the 7-year credit allowance period.

Recapture

NMTCs may be recaptured from investors during the 7-year credit period if:

1)The QEI fails the “**substantially all**” requirement

- e.g., Failure to invest 85% as allowed;
- Failure of investment to meet QALICB requirements; or
- Failure to meet one-year investment requirement

2)The CDE ceases to qualify as a CDE

3)The CDE redeems the investment

It is not an event of recapture if a CDE files for bankruptcy.

IRS Contact Info.

For questions about:

- Temporary Regulations
- Eligibility of possible QLICI activities
- Other tax implications of the program

Contact **IRS** at (202) 622-3040

Sample Strategies: Loan Funds

Option A: Raise Equity Directly

- Qualify as a CDE
- Apply directly for a NMTC allocation to raise equity for project(s)
- Finance related or unrelated project(s)

Option B: Market Deals to other CDEs

- Qualify as a CDE
- Sell qualifying loans to allocated CDEs
- Receive loans and investments from other allocated CDEs

Note: Option B - Visit CDFI Fund website for a list of allocated CDEs

Sample Strategies: Regulated Institutions

Option A: Wholly-owned Affiliate

- Qualify as a CDE
- Apply directly for a NMTC allocation to raise equity for project(s)
- Finance internal or external project(s)

Option B: Strategic Partnerships

- Determine business strategy/community impact objective
- Qualify eligible CDE(s)
- Make financial investment commitment

Note: Consult with applicable bank regulator on ownership and allowable business strategies

Sample Strategies: Business Entities, Developers & CDCs

Option A: CDE Qualified

- Qualify as a CDE
- Apply directly for a NMTC allocation; or
- Apply to allocated-CDEs for a loan/investment
- Finance expansion or project(s)

Option B: QALICB Qualified

- Qualify as a QALICB
- Apply to allocated-CDEs for a loan/investment
- Finance expansion or project(s)
- Visit website for list of CDFIs/CDEs

Sample Real Estate Activities

- Lend to non-profits to purchase and rehabilitate theaters in LICs
- Develop a transit-oriented commercial center
- Support a loan program for real estate projects such as health clinics, substance-abuse centers, childcare facilities, community-based charter schools, and office buildings for nonprofits
- Property acquisition and development of for-sale housing

Sample Business Activities

- Invest in businesses focused on sustainable forestry and economic development
- Provide equity and “near-equity” investments to companies in any stage of the business life-cycle (from start-up through traditional small business and commercial lending)
- Provide equity capital to disadvantaged individuals/entities seeking to own and operate franchises in underserved urban markets

Applicant Pool

	<u>2002</u>	<u>2003</u>
Total Applications	345	271
Total Requested	\$25.8 billion	\$30.4 billion

Total Allocatees	66	TBD
Average Allocation	\$38 million	TBD
Largest Allocation	\$170 million	TBD
Smallest Allocation	\$500,000	TBD

2002 NMTC Program QLICI Activities

- 48 plan to invest in or lend to non-real estate QALICBs
- 52 plan to invest in or lend to real estate QALICBs
- 18 plan to invest in or lend to other CDEs
- 12 plan to purchase loans from other CDEs

2002 NMTC Program Types of Organizations

- 28 CDFIs or affiliates of CDFIs
- 15 depository institutions or affiliates of depository institutions, including 3 CDFI-banks
- 4 public entities or affiliates of public entities

2002 NMTC Program Areas Served

- Serve 40 states and the District of Columbia
- 20 allocatees will predominantly serve rural areas
- Service area analysis:
 - 15 are national
 - 12 cross multiple states
 - 17 are statewide
 - 22 are local

CDFI Fund Contact Info.

For questions about the 2003 Allocation Round:

- Visit the Fund's website at www.cdfifund.gov
- Contact the Fund directly:

Programmatic Support

Ph: (202) 622-7373

Fax: (202) 622-8911

Email: cdfihelp@cdfi.treas.gov

IT Support

Ph: (202) 622-2455

Email: ithelpdesk@cdfi.treas.gov

The Fund will only accept questions about the 2003 Round **until September 29, 2003.**

